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SCOTTSDALE CITY COUNCIL

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**CITY PROCUREMENT CARD
PILOT PROGRAM**

The City Auditor monitored the City purchasing card pilot project and concluded that the cards do not create additional risk.

**Report No. 9600
March 1998**



March 12, 1998

To the Most Honorable Sam Kathryn Campana, Mayor
and the Members of the Scottsdale City Council

Transmitted herewith is the first of our periodic reports to you about City use of a procurement credit card, City Procurement Card Pilot Program, Audit No. 9600. This audit was a scheduled project approved by City Council. Sonny Phillips is the auditor in charge.

We did not identify any inappropriate use of the City procurement credit cards. As a result of our audit work, we concluded that the cards do not create additional risk of asset misuse or loss for the City. After an evaluation of the pilot procurement card program by the PROcard Committee, the employee group chartered to guide the program, the City contracted in March 1997 with Bank of America for full implementation of the purchasing card program. Control weaknesses which we identified during monitoring the pilot program were brought to the attention of the PROcard Committee prior to the program's full implementation. We recommend in this report that City-wide procedures for card use should be current, comprehensive, and consistent, and that department supervisory staff should routinely monitor card usage reports. We will be providing results of monitoring the current purchasing card program in future reports.

If you need additional information or have any questions, please feel free to contact us at 994-7756.

Respectfully submitted,

A handwritten signature in cursive script, reading "Cheryl Barcala".

Cheryl Barcala, CIA, CPA, CFE, CGFM
Scottsdale City Auditor

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CITY PROCUREMENT CARD PILOT PROGRAM, AUDIT NO. 9600
Action Plan

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		RECOMMENDATION(S)
	AGREE	DISAGREE	UNDERWAY	PLANNED	
1	xx		xx		Ensure that City-wide purchasing card program guidelines are kept current, are internally consistent, provide clear requirements regarding department management reconciliation and review, and are timely distributed to departments and cardholders.
2	xx		xx		Ensure that City-wide purchasing card program guidelines include recommended minimum procedures for departments which offer internal controls equal to the controls provided by the existing purchasing and payment process, such as purchases which must comply with specific City Procurement Code requirements; required documentation; use of the procurement card log; justification for charges; documenting the reason for and status of any disputed charges; and evidence of approval for any exception to the guidelines. Consideration should be given to incorporating procedures into the Administrative Guidelines.
3	xx		xx		Develop and offer a training module for presentation in City courses about proper administration of the purchasing functions which are available with the purchasing card.

CITY PROCUREMENT CARD PILOT PROGRAM

REPORT NO. 9600

EXECUTIVE SUMMARY

In 1994, the City Purchasing Department implemented a pilot project, the PROcard procurement credit card. Use of the PROcard was to permit City employees to purchase and pay for needed items under a specific dollar cost, using bank-issued credit cards billed directly to the City. Purchasing Department analysis determined that 85 percent of all City purchases, which represented only 7 percent of annual expenditures, could potentially be transferred to the PROcard process. Use of the PROcard was tested to replace the existing, time-consuming centralized procurement and payment procedures for specified types of low-dollar purchases, delegating responsibility to the departments to manage these procurements themselves.

At the request of the Financial Services General Manager, and with the approval of the Mayor and City Council, we participated on the PROcard Committee, and subsequently, monitored the results of the pilot project to determine whether use of the credit cards created issues related to adequate control. The audit was an approved project on the City Auditor's Fiscal Year (FY) 1995/96 audit plan. To determine whether or not PROcard users complied with guidelines, and to identify needed changes prior to the program's full implementation, we:

- evaluated whether or not all PROcard holders were properly authorized;
- evaluated documented justification for PROcard payments; and
- verified that PROcard expenditures were appropriate for the cost center.

The audit was initiated in April 1996, and periodic monitoring of the pilot continued until the close of fieldwork in July 1997. The PROcard Committee, established to guide the pilot project and to keep City management informed on progress, was briefed on a periodic basis about findings and recommendations which resulted from our audit work. Sonny Phillips was the auditor in charge.

Results in Brief

The PROcard pilot has evolved into a purchasing process that gives City employees the freedom to purchase and pay for needed materials themselves, without going through the centralized Purchasing process. We verified that PROcard users were properly authorized, and that PROcard purchases were appropriate for departments during our audit of transactions which occurred during the pilot project. We concluded that the use

of a procurement credit card did not create additional risk of asset misuse or loss for the City, compared to the existing centralized purchasing and payment process.

Our audit of transactions and the associated documentation did identify control weaknesses. We suggested to the PROcard Committee that these weaknesses should be addressed prior to the full implementation of the program. The most significant need which we identified was the need for department managers and supervisors to take ownership of this new purchasing process, and perform routine periodic reviews of purchases and documentation for appropriateness, compliance with purchasing card policies, and effect on the cost of supplies and services.

We recommend that the City-wide procedures for use of the procurement card should be current, comprehensive, and consistent, so that departments can use them as a reliable source for guidance in monitoring card use and in developing department-level policy. Department supervisory staff should routinely monitor reports available to them about card usage in their respective areas, and department-level procedures should indicate how this review is to be accomplished. Supervisors should evaluate procurement card reports for the following considerations:

- Are cardholders purchasing supplies which are appropriate, of reasonable cost, and which comply with guidance?
- Has appropriate documentation been kept to evidence the appropriateness of the purchases?
- Has use of the card for purchasing supplies increased the cost of supplies because of low volumes?
- Are cardholders incurring finance charges and late fees which can be avoided by proper management?

Because the PROcard Committee judged the pilot project to be a success, Purchasing contracted in March 1997 with a vendor, Bank of America, for a longer-term purchasing card program. The new contract eliminated the \$20 annual fee for each card which had been incurred during the pilot. The billing process also was improved to minimize finance charges and late fees. Beginning in July 1997, City staff began using the new purchasing card. We will be providing results of monitoring the program in future reports.

Background

The PROcard Program originated during 1994 as a limited pilot project in response to the need to reengineer City purchasing processes. The first PROcards were issued in June, 1994. After evaluation by the Purchasing Director, and approval by City management, an expanded pilot PROcard program was developed to offer wider card availability. To guide the expanded pilot program, the Purchasing Department formed the PROcard Committee to monitor the overall success of the program, and then to report to City

management about results. The Committee had representatives from Purchasing, Accounting, Accounts Payable, Information Systems, and City Auditor.

The objectives of PROcard were ultimately to have a process which would:

- Delegate authority, control and accountability to departments while maintaining a readily available audit trail.
- Significantly reduce the paperwork, time, and related costs associated with ordering, control, and payment of select dollar purchases.
- Maintain financial control over select dollar purchases with readily available audit trails.
- Provide management reports on select dollar purchase activity by departments.
- Be perceived by employees as more convenient and cost effective than the purchase order and check requisition processes which PROcard replaced.
- Provide flexibility which recognizes the various dollar purchase patterns and volumes of departments.
- Increase convenience in making select dollar purchases for departments.

PROcard was expected both to save the City money and to improve service to City customers. Purchasing believed it could provide better service to City departments with existing staff, if it could lower significantly the number of transactions its staff had to process. Card charges also required fewer of Financial Services' staff resources to process for payment. The transfer of funds for monthly payments is done in one electronic transaction. In Fiscal Year 1994/95, Purchasing found that approximately 19,000 purchase orders and 18,750 check requisitions had been processed for purchases under \$1,000. Purchasing determined that each such transaction which it had to process cost about \$60 in staff time and processing fees, while credit card transactions would cost \$5 to process. Purchasing thus projected savings of approximately \$55.00 for each purchase with the PROcard compared to existing processes.

At the same time, departments believed that service to citizens would be enhanced if employees could get their materials when needed for immediate use on tasks. Prior to the PROcard pilot, employees purchased most such items through use of a check requisition, petty cash or purchase order.

Bank One was the original PROcard vendor, selected because it had the City's existing financial services contract. The PROcard used during the pilot was issued by the bank, and had the cardholder's name on it, like any credit card. Each cardholder selected to participate in the pilot was originally given a \$1,000 credit limit. If the cardholder needed a higher credit limit to perform work, the higher limit was granted on an exception basis. At the program's inception, 30 employees were selected to participate. By the end of the pilot in June 1997, there were over 200 cardholders.

PROcard Shifts Responsibility For Control

PROcard shifted responsibility for purchasing management from the Purchasing Department to the user departments. Purchasing acknowledged that additional time could be required for departments to appropriately administer the PROcard process.

The existing purchasing and payment processes replaced by PROcard included internal controls designed to safeguard City assets. Controls to prevent asset misuse or loss included requirements planning, economic order quantity analysis, market competition whenever practicable, and segregation of duties between the requesting, the ordering, and the payment functions. The automated commodity code-based Scottsdale Purchase Order Tracking System (SPOTS), captured specific information about commodities being purchased, and the Standard Industry Code (SIC) of vendors. Buyers in the Purchasing Department researched the requested good or services prior to placing an order. The City Warehouse received and distributed goods.

Exhibit I on the next page is an overview of the risks recognized in the purchasing function, along with the controls which should be developed to prevent, detect, or correct problems. Controls are directed primarily at ensuring that economic decisions are made, and assets are safeguarded.

The key component to appropriate purchasing card use is realization by department managers, supervisors and cardholders, that they, as individuals, have to assume responsibility for controlling their own purchasing, rather than continue to rely on the existing centralized process to support their operations. Departments, not Financial Services, place orders directly with vendors, verify that appropriate documentation for the purchase exists, verify that invoices are appropriate for payment, review for appropriate signature on the charge receipt, verify receipt of the goods, and evaluate the cost of supplies.

Concerns related to increased cost of supplies, for example, due to individual purchases at retail prices, are to be addressed by the departments. Cardholders are responsible for identifying and properly handling hazardous products identified by Risk Management and Environmental Affairs, and for obtaining concurrence from Information Systems before buying computer-related items.

PROcard Process Incorporated Controls

The PROcard pilot was designed to facilitate adequate controls in the streamlined process to prevent asset misuse or loss and to detect problems if they occurred. PROcard controls were to compensate for the absence of those controls built-in to the existing centralized purchasing and payment process. Procedures were also developed in the pilot project to retain information about purchases on PROcards to replace that which would have been available from the City SPOTS.

EXHIBIT I**EXHIBIT I****Internal Controls in the Centralized Purchasing Function**

Control	Risk
<i>Approved vendor file list</i>	Purchases made from vendors related to buyers Substandard or problem vendors
<i>Conflict of interest program</i>	Assets will be misdirected or lost Personal purchases Uneconomic purchases
<i>Supervisory approval of bidders lists</i>	Purchases made from vendors related to buyers Substandard or problem vendors
<i>Economic order quantity analysis</i> <i>Open public competition</i>	Purchases in excess of need Purchases more costly than could be; Vendor discounts for quantity buys lost Time lost making multiple trips for supplies
<i>Research by buyers of vendors quality</i>	Substandard supplies
<i>Review and Authorization of purchase order by other than staff ordering</i> <i>Authorization for payment separate from ordering unit (segregation of duties)</i> <i>Reconciliation between invoice, purchase receipt and shipping advice.</i> <i>Management reports of purchases, reviewed for trends and reconciled to authorizations</i>	Payments for goods not received Supplies diverted Unnecessary supplies bought Unauthorized purchaser
<i>Staff trained in procurement</i>	Purchases not in conformance with City Procurement Code
<i>Adequate documentation retained</i>	Payments for goods not ordered Personal purchases Unauthorized purchases
<i>Written policies and procedures</i>	Lack of adequate information about what is required can lead to uneconomic, inefficient, or illegal activities

SOURCE: Audit analysis

PROcard controls designed to prevent misuse included authorizing individual cardholders after determining that the cards were likely to result in productivity gains to the City. Before cards were issued, the cardholders and their supervisors attended mandatory training on card procedures. Cards were issued with a transaction and billing period dollar limit, which corresponded to the Purchasing small purchase ceiling. Cards were not authorized for cash advances or automated teller machine use. The cardholder's photograph was displayed on the card, deterring unauthorized users.

Cardholders and their supervisors were also provided with PROcard guidelines, which detailed cardholder responsibilities. Cards were not to be used for personal expenses, for vehicle rental or leasing, or for paying for professional services of an individual, such as performers or caterers, due to liability and federal tax issues. Cards were not to be used for purchases which could have been pre-planned and accomplished more efficiently. Purchases had to comply with the City Procurement Code, and hazardous materials and waste requirements. No capital items could be purchased, and computer-related items had to be concurred with, in advance, by Information Systems.

PROcard also included controls designed to detect asset misuse or loss, which were to be implemented by departments. Cardholders were required to reconcile their PROcard bills with the original purchase receipts, which they were to retain. Appropriate records had to be retained to help department reviewers understand what was being purchased, along with intended City use. Purchasing suggested the use of a PROcard Log of all purchases and the City activity they supported, which would be kept in the department's financial records. The PROcard Log eliminated the need for a check requisition, according to the PROcard guidelines. Cardholders initially were required to annotate purchases with the appropriate City general ledger account numbers to facilitate tracking. (Currently, all purchasing card payments are posted to one general ledger account, and departments must perform their own analysis of purchase trends.)

Reports designed to monitor PROcard use were included in the pilot. Reports available were the Company Card Billing Report, designed to check purchases with, and to highlight where more detail was needed to understand the purchase; the Employee Activity Report, used to identify sensitive or prohibited activity, and finance charges; and the Cardholders Recap by Month, to track the value of expenditures and the year-to-date number of transactions for each cardholder. Reports were developed for department managers and supervisors to review, and guidelines for how the reports could be researched were documented.

Initially, in the early pilot phases, the Purchasing Director stated that she performed monthly reconciliations of PROcard bills to supporting documentation, but this oversight role later devolved to departments. Cardholders were reminded that if planning ahead was possible, then the City's automated purchasing system was the most efficient process for obtaining needed supplies and services.

The purchasing card program implemented in July 1997 is similar to the PROcard in that it is a bank-issued card given to employees. The credit limit has been increased to \$2,000 per transaction and \$5,000 per cycle (billing period) for each cardholder.

Guidelines Should Be Kept Current, And Supervisors Should Monitor Card Use

PROcard was envisioned to be a good way to reduce Purchasing staff costs, while providing better service internally to departments and externally to citizens. At the same time, procurement cards were believed to offer adequate controls to safeguard City assets, and to satisfy the City's fiduciary responsibility regarding the use of public funds. PROcard was phased in slowly in order to closely monitor the process, and to provide support to cardholders and management. In the first stage of the pilot, the PROcard was for emergency purchases. Later, the card was authorized for routine purchases. The current City purchasing card program is set up to handle virtually all routine purchases under \$2,000.

We found that the procurement cards did provide adequate controls. To continue to ensure that controls are adequate and functional, Purchasing should ensure that cardholder City-wide guidelines are current, specific, and consistent. Departments should ensure that purchasing card policies and procedures for their areas are developed and implemented, and that appropriate supervisory reviews are taking place. These issues are discussed in the following sections.

Procurement Card Program Guidelines Should Be Current, Comprehensive, and Consistent

PROcard use shifted purchasing responsibilities to the department buying the materials, and released Purchasing from the responsibility of buying supplies that departmental staff could buy. In this decentralized process, City-wide Procurement Card Guidelines provide cardholders and departments important information. To be useful as a reference tool, a training manual, and a monitoring template, guidelines should be kept current by Purchasing and department staff. Guidelines should indicate appropriate purchases which may be made. Guidelines also should explain how to deal with any exceptions, and should provide record-keeping procedures. To avoid confusing cardholders, guidelines also should provide consistent requirements.

Initial PROcard guidelines for departments and cardholders were distributed in May of 1995. In monitoring the pilot, we looked for transactions which did not conform to the evolving program guidelines to provide feedback to the PROcard Committee about how City staff were performing in the new process, and about how well the pilot was meeting expectations. We found that the PROcard Committee had not developed a process for notifying participants in the pilot about card use guideline changes which could have made the card more useful in department operations. The pilot program guidelines did

not include needed requirements from the City Procurement Code, and were not internally consistent.

Guidelines Should Be Current

In a decentralized program like the purchasing card, controls established by the City-wide guidelines for card use partly are intended to safeguard City funds, as well as to guide cardholders. When guidelines change, cardholders should be formally notified. During our audit, when we compared transactions to the guidelines, we identified a significant number of cardholder purchases which apparently were prohibited. When we inquired about these, the Program Administrator indicated that purchases such as food had become acceptable in some instances. The Administrator did not put a priority on documenting such changes formally, or on notifying cardholders because of the continuously evolving nature of the pilot.

Initially, PROcard was limited to emergency use. As the pilot progressed, the PROcard Committee recognized that in order for the card to be most useful to many employees, a variety of non-emergency purchases were necessary. The PROcard Committee informally modified the guidelines to accommodate many types of purchases, permitting cardholders to use the PROcard in ways that benefited their departments.

Guidelines Should Be Comprehensive

In a decentralized process such as the purchasing card, transactions can have effects upon related processes. City-wide guidelines for cardholders should discuss the implications of these interactions, and should regulate their potential effects. For example, guidelines should discuss the implications of purchasing capital products, and the need to obtain Information System concurrence for computer-related equipment purchases. These are requirements of the City Procurement Code which should be incorporated into the card guidelines. PROcard guidelines did describe the proper procedures to preclude bank charges, and stated that if penalties were incurred that they would be charged to the cardholder's budget. The guidelines did not discuss how to properly account for such charges in the appropriate general ledger account.

In monitoring transactions during the pilot, we found one situation where individual cardholders participated in joint purchases of items valued at \$1,000 or more, bypassing the \$1,000 card limit, and also identified purchases of computer-related equipment which were not coordinated with Information Systems. When cardholders circumvented the \$1,000 PROcard limit, controls incorporated into the City Procurement Code were avoided. The Code required that for purchases of from \$1,000 up to \$5,000, whenever practicable, at least three bidders shall be solicited to submit verbal or written quotations, to make sure that the City gets a good price for the large expenditure. When computer-related equipment was purchased without Information System concurrence, the equipment did not get recorded in the Information System inventory. If computer

equipment does not conform to City standards, Information Systems may not be able to provide technical support.

Guidelines Should Be Consistent

To provide departments with maximum flexibility in developing their own procedures, PROcard guidelines offered a variety of options to cardholders regarding record keeping, departmental review, and the optimum time frame to submit statements to Accounts Payable for payment. To make sure that cardholders were not confused, guidelines should have been consistent from one section to the next.

By contrast, recommended practices varied from one section of the guidelines to another. In one provision, referring to departmental review, guidelines stated that management or the cardholder's supervisor was responsible for review of the statement. In another, the guidelines indicated that no signature other than the cardholder's was necessary for payment. Additionally, the Procurement Card Log, the recommended form for tracking charges, did not provide a space for a reviewer's signature. Guidelines indicated that cardholders either should submit their statements to Accounts Payable within five days of receipt, or ten days before they were due.

Because of the inconsistencies, cardholders followed the guidelines that were most convenient. The variance in the time frames described in the guidelines did not always allow enough time for timely payment of PROcard statements. As a result, we identified bank finance charges and late fees during monitoring, as discussed in the next section.

Department Supervisors Should Monitor Card Use

PROcards shifted the responsibility for controlling certain purchases from the centralized Purchasing process out to departments. PROcard was to empower the departments and their employees, permitting departments to "customize" procedures to meet their specific needs. To make sure that employees were prepared for the increased responsibility, before issuing cards Purchasing requested that cardholders attend a formal training session where they received their PROcards, the program guidelines, and an explanation of policies and procedures.

While supervisors were trained that Purchasing strongly recommended that they review cardholder purchases monthly, department managers and supervisors could decide locally whether or not to require their review and approval prior to the cardholder sending the PROcard bill for payment to Accounts Payable. While this approval was recommended by PROcard guidelines, it was not a requirement. Cardholders were instructed that they were personally responsible to retain appropriate justification for purchases.

Because management and supervisors elected to not routinely sign their review and approval for payments, during our monitoring of transactions, the appearance was that no review of purchases was conducted. Guidelines for supervisory review are shown in the Insert below.

Guidelines For Supervisor Review Of Purchasing Card Purchases

Supervisors should:

- Verify that the cardholder has initialed and dated card statements to evidence review.
- Verify that disputed items and returns have been resolved.
- Verify that the cardholder has retained appropriate documentation to support purchases.
- Review supporting documentation (receipts) to verify that purchases comply with guidelines.
- Verify that only one cardholder used the card by checking signatures on receipts.
- Make sure that the cardholder did not "split" purchases to avoid the card limit.
- Identify late payments posted to the account.
- Review purchases charged to the organization's account and verify that the totals match the card statements.
- Sign and date the statements to evidence supervisory review.

Source: PROcard training materials.

One of the goals of PROcard was to effect cost savings. Late fees and finance charges can be avoided through careful City staff card management and appropriate departmental monitoring and review. While PROcard guidelines required cardholders to pay their balance timely so as not to incur finance charges or late fees, we determined through reviewing a sample of cardholder statements that these bank fees were incurred. Supervisory review should identify ineffective cardholder practices which result in bank charges that could be avoided.

Furthermore, we determined that late fees, incurred when payments are not made by the due date, were charged because the cardholder delayed submitting his or her statement to Accounts Payable, or because Accounts Payable was slow in paying the bill. In some cases, the cardholder statement was mailed to a remote location, making it difficult for the statement to be reviewed in a timely fashion. We determined that finance charges which accrue when the entire statement balance is not paid timely were incurred due to mail delays, and to slow processing by the cardholder, Accounts Payable, or the bank.

RECOMMENDATIONS

The General Manager, Financial Services, should:

1. Ensure that City-wide purchasing card program guidelines are kept current, are internally consistent, provide clear requirements regarding department management reconciliation and review, and are timely distributed to departments and cardholders.
2. Ensure that City-wide purchasing card program guidelines include recommended minimum procedures for departments which offer internal controls equal to the controls provided by the existing purchasing and payment process, such as purchases which must comply with specific City Procurement Code requirements; required documentation; use of the procurement card log; justification for charges; documenting the reason for and status of any disputed charges; and evidence of approval for any exception to the guidelines. Consideration should be given to incorporating procedures into the Administrative Guidelines.
3. Develop and offer a training module for presentation in City courses about proper administration of the purchasing functions which are available with the purchasing card.

ABBREVIATED RESPONSES

(The full text of the management responses is reproduced in Appendix B.)

Recommendation No. 1: The Financial Services General Manager responded that he agrees with all of the recommendation, and that the current purchasing card guidelines and processes meet the recommendation's criteria.

Recommendation No. 2: The Financial Services General Manager responded that he agrees with the recommendation, and that current purchasing card guidelines and processes exceed the recommendation's criteria.

Recommendation No. 3: The Financial Services General Manager responded that he agrees with the recommendation, and that all cardholders are required to take a one and one-half-hour course.

APPENDIX A

Objectives, Scope And Methodology

The objective of the PROcard audit was to determine whether or not the PROcard pilot program complied to authoritative dictates, and to identify needed operational changes for a longer-term procurement card program. Management requested that we monitor the PROcard, to provide assurance that this procurement method would be used only in situations advantageous to the City.

Approved audit objectives were:

- To insure that PROcard holders were properly authorized users.
- To determine that proper documentation existed to justify the payment of the procurements.
- To corroborate that the program was a cost-effective method of purchasing.
- To verify that the expenditures were appropriate for the cost center making the purchase.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III SRC §2-117 *et. seq.*, except that the Office currently does not comply with the requirement regarding peer review frequency. Fieldwork took place from March 1996 to July 1997.

To understand the pilot procurement card process, we obtained a copy of the PROcard policies and procedures manual. Additionally, we attended a PROcard training session to obtain additional insight. We also interviewed Purchasing staff and surveyed members of the PROcard Committee to gain an understanding of what the PROcard pilot was expected to accomplish, as well as concerns for the permanent procurement card program.

In order to determine if all cardholders were authorized users, we reviewed historical documentation as well as detailed proofs of purchase, and created a database of approved users from the information provided by Financial Services. Monthly, we updated the database from Financial Services records in an effort to verify users, both new and terminated, to the bank's records.

To certify whether expenses associated with the pilot were appropriate, and whether controls were in place to safeguard the system, we used the created database. A random sample of users was selected from the database for audit testing purposes. The testing process consisted of retrieving detailed documentation of purchases and the PROcard Log from Financial Services microfilm. This documentation was compared to bank records and to the PROcard guidelines regarding card use. Transactions which we believed did

not comply with guidelines were researched further to determine if departments had identified and corrected the problems.

The insert below lists the type of transaction characteristic for which we reviewed during the audit. The characteristics listed were developed on the basis of the PROcard guidelines current at the time of the test, as well as the professional audit literature.

Transaction Characteristic

Purchase of uniforms (offered under another program).	Information System concurrence on computer-related purchases not evident.
Late fees incurred.	Purchase of airline tickets.
Purchase charged to an unrelated account.	Past due/default notice.
Bank fees charged to an unrelated account.	Transaction exceeding the authorized limit.
Purchase of travel lodging.	Questionable balance.
Purchase of restaurant food.	Supervisor approval not evident.
Purchase of capital items.	Signature variations on documentation.
Purchase of questionable products.	Purchases related to meeting expenses.
PROcard record missing.	Statement submitted to Accounts Payable late.
Planning for purchases not evident.	Finance charge incurred.
Documentation missing.	Finance charge not paid.
Card used for personal purchases.	Amounts entered incorrectly.

SOURCE: Audit analysis.

For the months of August 1995 through March 1996, we performed a 5 percent random sample each month. We reviewed all transactions for the randomly selected cardholders. Additionally, we also selected a judgment sample from the Bank One Card billing reports. This sample was based upon possible violations of PROcard formal policies and procedures. We only reviewed the transactions selected as possible violations from the bank reports.

For the month of December 1996, the PROcard population was 240 cardholders. We performed a random sample as well as a judgment sample. The random sample was 5 percent of the cardholders, or 12 members of the 240 PROcard population. We reviewed all transactions conducted by these selected cardholders. The judgment sample was selected based upon possible violations of PROcard policies and procedures. We selected 79 cardholders' December 1996 statements for further evaluation. We reviewed only the judgmentally selected transactions conducted by the selected cardholders.

For the months of January, February and March of 1997, we eliminated the judgment sample, and performed a 5 percent random sample on the combined total of all active PROcard accounts. Any account with a current balance or current purchases was considered to be active and could be selected in each month. We selected 31 cardholder accounts, 5 percent of the 621 combined total of each month's active accounts, for the 3-month period. We also reviewed all the transactions conducted by these cardholders. We selected only one cardholder more than once, in January and again in March.

For the months of April 1997 through June 1997, we performed a random sample as well as a judgment sample. The random sample represented 5 percent of the cardholders for each month. We reviewed all transactions conducted by these selected cardholders. The judgment sample selected was based upon possible violations of PROcard policies and procedures. We reviewed only the judgmentally selected transactions conducted by these cardholders.

The modification in the procedures for the different sampling methodologies resulted in an increased and decreased sample size. The chart below indicates the number of cardholders selected in any given month. It also indicates the number of all cardholders in any given month. In the months from February to June 1997, the number of cardholders declined. This was due to the new Bank of America purchasing card implemented in June. Some cardholders elected to cancel their old cards, awaiting the new purchasing Card. June 1997 was the last statement cycle with Bank One PROcard.

Month	Total Active Card Accounts	Number of Accounts Reviewed
August 1995	110	24
September 1995	111	26
October 1995	112	26
November 1995	116	19
December 1995	141	24
January 1996	141	30
February 1996	160	37
March 1996	178	71
April through November 1996	not tested	
December 1996	240	92
January 1997	240	10
February 1997	218	14
March 1997	201	7
April 1997	180	88
May 1997	150	59
June 1997	20	39

SOURCE: Audit Analysis


APPENDIX B

Management Responses



MEMORANDUM

DATE: March 9, 1998

TO: Cheryl Barcala, City Auditor
FROM:  James A. Jenkins, Financial Services General Manager
Monroe C. Warren, Purchasing Director
SUBJECT: Response to City Procurement Card Pilot Program Audit

We have examined the audit of the pilot procurement card program by the City Auditor's office. We found this audit was beneficial in validating procedures with the current Purchasing Card program. The procurement card program was a pilot that was mainly for emergency purchases. As the pilot progressed along, Purchasing found there were many opportunities to improve the pilot by changing existing procedures. A committee was formed to systematically look at changing the existing procedures. The committee examined the original goals of the Pro-card program and found the most far reaching changes could only be accomplished with a new program. The committee developed a request for proposal for a new program and the best proposal for a new program was provided by Bank of America. The new program was developed based upon the things we learned in the pilot program.

Recommendation 1: "Ensure that City-wide purchasing card program guidelines are kept current, are internally consistent, provide clear requirements regarding department management reconciliation and review, and are timely distributed to departments and cardholders."

We agree with all of recommendation 1. The guidelines for the Purchasing Card meet this recommendation. The guidelines are current and provide clear requirements for card holders and their supervisors. These guidelines are given to each Purchasing Card holder and their supervisor during their initial training. There have been no changes in the guidelines since the inception of the Purchasing Card but Purchasing has committed to timely dissemination of any future changes in the guidelines. Purchasing is also disseminating a quarterly newsletter to all card holders in which we discuss current issues and reminders of the requirements of the program.

Recommendation 2: "Ensure that City-wide purchasing card program guidelines include recommended minimum procedures for departments which offer internal controls equal to the controls provided by the existing purchasing and payment process, such as purchases which must comply with specific City Procurement Code requirements; required documentation; use of the procurement card log; justification for charges; documenting the reason for and status of any disputed charges; and evidence of approval for any exception to the guidelines. Consideration should be given to incorporating procedures into the Administrative Guidelines."

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Procard Pilot Project
March 9, 1998

We agree with recommendation 2. As mentioned in our response to recommendation 1, each person that receives a purchasing card and their supervisor receives a Purchasing Card guide and 1 ½ hours of training. The guide explicitly describes the minimum procedures for departments to include what the card holder must do to make a purchase, pg. 26, the documentation required by the card holder to substantiate the purchase, pg. 27, the review and authorization process to be performed by the supervisor, pg. 27, what the card holder must do on disputed charges, pg. 27, the prohibited uses of the purchasing card, pgs. 16 and 17, and what the card holder must do about lost or stolen cards, pg. 23. Purchasing also provides wallet guides for each card holder, supervisor, and each city vehicle. Purchasing is currently looking at the best method to keep all card holders aware of changes in the purchasing card program. We are in the process of putting the Purchasing Card Guide on the Scottsdale Intranet. We have updated the Administrative Guidelines and attached the proposed guidelines.

Recommendation 3: "Develop and offer a training module for presentation in City courses about proper administration of the purchasing functions which are available with the purchasing card.."

We agree with recommendation 3. Purchasing requires all employees desiring a Purchasing Card to undergo a 1 ½ hour class on the duties, responsibilities, and opportunities that are available through the proper use of the Purchasing Card. We believe the success of the current Purchasing Card program is largely a result of the quality training that is provided to all card holders and their supervisors.